FDIC State Profile

Spring 2004

Michigan

Economic recovery will take time in Michigan.

- Michigan's unemployment rate rose to 7.6 percent in fourth quarter 2003, when it was more than a percentage point higher than a year earlier. This rate was one of the highest in the nation. A reported spurt in the state's labor force, unmatched by new hiring, drove the increase in the unemployment rate.

- Job losses in 2003 were widespread across Michigan's sectors. Over half the decline was in the manufacturing sector, but the government and trade, transportation, and utility sectors also posted significant declines (See Chart 1).

- National manufacturing trends, such as rising orders for durable goods and sustained vehicle sales, suggest conditions in some parts of Michigan's manufacturing sector may improve. To date, however, capacity utilization rates for several industries important in Michigan have shown modest improvement (See Chart 2). Stabilization in the utilization rate for the furniture sector may foreshadow fewer layoffs ahead in ***Grand Rapids*** and other areas heavily dependent on this industry.

To some degree, Michigan households' finances reflect weak labor market conditions.

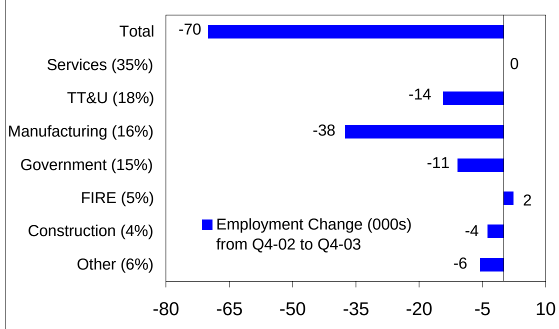
- Modest personal income growth in Michigan barely kept pace with inflation in recent quarters and was weaker than the nation.

- Should state-wide employment losses continue, the financial vulnerability of some households could intensify. Additionally, personal bankruptcies set another record high in 2003, although the rate of growth moderated relative to the prior two years.

- Single-family home resales posted another record in Michigan during 2003, but home prices increased by only 3 percent, the smallest gain in a decade. In line with national developments, the refinancing boom showed signs of slowing.

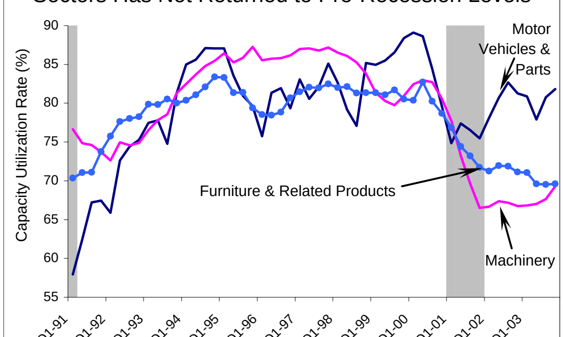
Detroit commercial real estate (CRE) markets remained weak.

Chart 1: Michigan's Job Losses Were Widespread



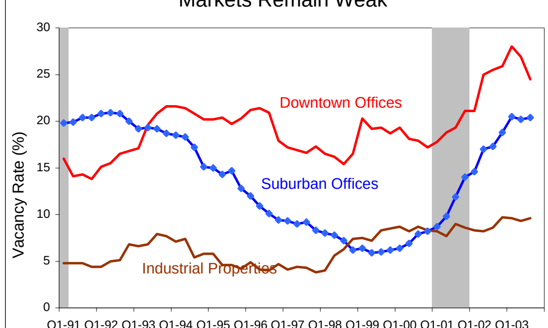
Note:TT&U refers to trade, transportation and utilities;FIRE refers to finance, insurance, and real estate. Numbers in parentheses are shares of employment. Source: Bureau of Labor Statistics.

Chart 2: Capacity Utilization in Important Manufacturing Sectors Has Not Returned to Pre-Recession Levels



Source: Federal Reserve Board

Chart 3: Detroit Commercial Real Estate Markets Remain Weak



Source: CB Richard Ellis

- Office properties in downtown ***Detroit*** continued to be adversely affected by sluggish demand and low net absorption. Office vacancy rates remained near the highest levels of the past decade (See Chart 3). New plans to revitalize downtown Detroit may bring increased economic activity into the area, with time.

Net interest margins (NIM) continued to contract.

- Michigan community institutions[1] continued to experience (NIM) compression, as asset yields fell more rapidly than funding costs in the fourth quarter 2003.

- Despite NIM contraction, Michigan community institutions reported improved profitability in the fourth quarter 2003 from fourth quarter 2002. Reductions in loan-loss provisions, noninterest expense, and taxes more than offset declining net interest income and noninterest income to boost profitability (See Table 1).

Overall credit quality in Michigan improved in 2003.

- Asset quality among Michigan community institutions improved across most loan categories (See Chart 4). The aggregate past-due ratio for Michigan community institutions declined to 2.77 percent in the fourth quarter 2003, down from 2.83 percent in the fourth quarter 2002.

- Potential CRE market deterioration is a concern, as the median ratio of CRE loans to Tier 1 capital among Michigan-based insured institutions continued to increase relative to the Chicago region, rising to 237 percent as of December 31, 2003 (See Chart 5). Median CRE loan delinquencies increased to 1.29 percent at year-end 2003, a gain of 8-basis points last year.

- Since 2000, the percentage of the state's insured institutions with CRE loans to Tier 1 capital greater than 300 percent increased from 25 percent to 39 percent. Median CRE past-due rates for those institutions increased to 1.03 percent in 2003, up from 0.16 percent in 2000.

- Institutions headquartered in the ***Detroit*** MSA reported increasing concentrations of CRE loan exposure,[2] as median CRE loans to Tier 1 capital increased to 302 percent in 2003, up from 256 percent in 2002. Deteriorating CRE market conditions may have contributed to a year-over-year increase in CRE delinquencies with the median CRE past-due ratio increasing to 1.42 percent in 2003, up from 1.05 percent in 2002.

- Insured institutions headquartered in ***Grand Rapids*** MSA continued to report increasing levels of CRE exposure at 433 percent of CRE loans to Tier 1 capital as of December 31, 2003, up from 410 percent one-year earlier. Median CRE past-due rate increased slightly in 2003, climbing to 0.94 percent, up from 0.86 percent in 2002.

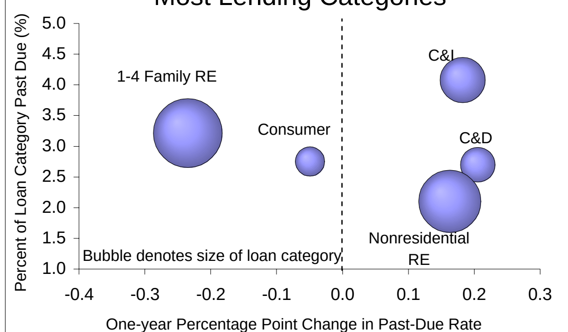
Table 1: Improved Profitability Despite Lower Revenues

Income statement contribution (as a percentage of average assets)

	3 months ended December 31		Basis Point Change
	2002	2003	
Net Interest Income	3.88	3.68	-0.20
Total Noninterest Income	1.33	1.02	-0.31
Noninterest Expense	-3.34	-3.29	0.05
Provision Expense	-0.55	-0.08	0.47
Security Gains & Losses	0.05	0.04	-0.01
Income Taxes	-0.45	-0.40	0.05
Net Income (ROA)	**0.91**	**0.97**	**0.06**

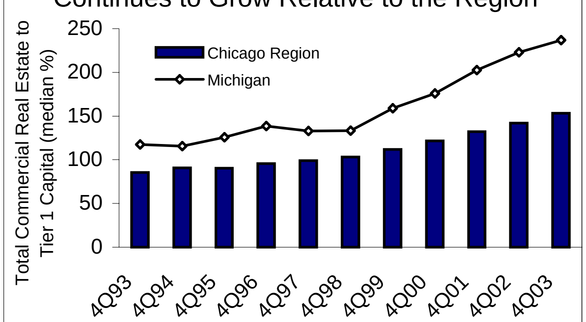
Source: Bank and Thrift Call Reports for Community Institutions

Chart 4: Past-Due Rates are Lower Across Most Lending Categories



Source: Aggregate Bank and Thrift Call Reports for Community Institutions

Chart 5: Michigan's Substantial CRE Exposure Continues to Grow Relative to the Region



Source: Bank and Thrift Call Reports

[1] Community banks refers to insured institutions with less than $1 billion in assets, excluding new (less than three years old) and specialty banks.
[2] CRE loans include construction, multifamily, and nonfarm-nonresidential mortgages.

Michigan at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	178	180	181	190	195
Total Assets (in thousands)	197,355,287	166,402,017	175,090,466	170,013,441	154,753,436
New Institutions (# < 3 years)	8	13	18	21	23
New Institutions (# < 9 years)	37	40	39	36	34

Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	9.08	8.83	8.85	8.97	9.12

Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	2.15%	2.22%	2.06%	1.84%	1.58%
Past-Due and Nonaccrual >= 5%	19	26	29	23	12
ALLL/Total Loans (median %)	1.30%	1.32%	1.26%	1.28%	1.29%
ALLL/Noncurrent Loans (median multiple)	1.41	1.40	1.77	2.15	2.82
Net Loan Losses/Loans (aggregate)	0.51%	0.58%	0.53%	0.25%	0.24%

Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	9	14	18	15	21
Percent Unprofitable	5.06%	7.78%	9.94%	7.89%	10.77%
Return on Assets (median %)	1.10	1.13	1.09	1.14	1.14
25th Percentile	0.76	0.77	0.75	0.81	0.72
Net Interest Margin (median %)	4.12%	4.29%	4.33%	4.49%	4.46%
Yield on Earning Assets (median)	6.01%	6.84%	7.99%	8.44%	8.00%
Cost of Funding Earning Assets (median)	2.00%	2.57%	3.66%	3.96%	3.52%
Provisions to Avg. Assets (median)	0.19%	0.23%	0.20%	0.16%	0.14%
Noninterest Income to Avg. Assets (median)	0.89%	0.80%	0.73%	0.65%	0.66%
Overhead to Avg. Assets (median)	3.13%	3.11%	3.14%	3.09%	3.26%

Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	90.77%	89.81%	90.70%	91.01%	87.18%
Loans to Assets (median %)	74.06%	73.17%	74.42%	74.14%	72.75%
Brokered Deposits (# of Institutions)	63	62	56	53	45
Bro. Deps./Assets (median for above inst.)	7.11%	7.33%	3.26%	8.46%	6.07%
Noncore Funding to Assets (median)	18.63%	20.13%	20.05%	21.30%	18.29%
Core Funding to Assets (median)	69.77%	69.18%	68.53%	67.85%	70.94%

Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	101	103	101	104	99
National	26	26	27	28	36
State Member	31	31	34	37	37
S&L	2	2	2	2	2
Savings Bank	13	13	13	14	14
Stock and Mutual SB	5	5	4	5	7

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	77	12,398,991	43.26%	6.28%
Detroit MI PMSA	38	119,186,844	21.35%	60.39%
Grand Rapids-Muskegon-Holland MI	20	44,653,626	11.24%	22.63%
Ann Arbor MI PMSA	12	2,567,678	6.74%	1.30%
Lansing-East Lansing MI	10	7,171,488	5.62%	3.63%
Kalamazoo-Battle Creek MI	7	608,789	3.93%	0.31%
Saginaw-Bay City-Midland MI	5	3,158,418	2.81%	1.60%
Flint MI PMSA	4	5,956,658	2.25%	3.02%
Benton Harbor MI	4	1,593,439	2.25%	0.81%
Jackson MI	1	59,356	0.56%	0.03%